

The indirect effects of alternative pricing systems must also be taken into account. Would they permit the more efficient firms to grow at the expense of their higher cost rivals? Would they put such pressure on producers as would induce them to exploit all available economies of scale? Would they be consistent with whatever forms of co-operation between firms in matters other than price, are held to be desirable? Would they be likely to facilitate, or to hamper, the forward planning of production? How, if at all, would they affect the ability and willingness of firms to export? These are some of the ways in which alternative methods of pricing might influence the efficiency and structure of the industries that adopted them.

The simplest solution to the problem of determining prices is that recommended by the Monopolies Commission and, by implication, in the Judgment of the Restrictive Practices Court. It consists in proscribing any inter-firm agreement or arrangement and leaving prices to be determined by free competition, each producer setting his own price in independence of his rivals. The genuine merits of this solution are readily apparent. The operation of price agreements, and their public control, requires an administrative machinery which, in terms of the services of lawyers, accountants, economists and the like, represents a genuine social cost. Price agreements, if not subject to public control, may be used to further the interests of those who make them, to the disadvantage of the community as a whole; but public control may itself be abused, either to protect vested interests or to court political popularity. By relying on free price competition, we can avoid these costs and difficulties. This is a substantial advantage to which I give full weight. I shall argue, nevertheless, that price competition is not appropriate to the special conditions of the markets with which we are concerned.

4. *Transformers.*

(i) *Alternative Effects of Abrogating Agreements.*

Let us first consider transformers. First, we have to decide whether the proscription of agreements would be likely to lead firms to compete actively in terms of price. It will be recalled that the agreement between the manufacturers of transformers was held by the Restrictive Practices Court, in 1961, to be contrary to the public interest. The Report from the Select Committee, however, quotes the Generating Board to the effect that 'while the manufacturers have observed the letter of this decision, they have flouted its spirit by adopting a system of price leadership'. Acting under this conviction the Board ordered two large transformers from Canada at prices appreciably below these ruling in this country. The manufacturers objected strongly to this decision; they maintained that the transformer market in Canada was very depressed and saw the Boards' action as an attempt to bring British prices down to similar levels. At the same time, they claimed that the system of price notification that firms had adopted was not equivalent to price agreement, in that it permitted firms to quote low prices if they believed themselves to be competitive.

No fully adequate information is available to me about the present level of prices and profits in transformer production or about the extent of the changes that have taken place since abrogation of the agreement. It is possible, nevertheless, to